

Message Text

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ACTION ARA-14

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TRSE-00 AID-05 OMB-01 EB-08 ACDA-12 COME-00 FRB-03
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FM AMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 776

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 5878

E.O. 11652: GDS

TAGS: EFIN, PE

SUBJECT: PERU'S 1978 B/P AND EXTERNAL FINANCIAL GAP

REF: A. LIMA 5815, B. LIMA 5000, C. LIMA 5290

1. SUMMARY: EMBASEQ'S ANALYSIS, BASED ON GOP'S RECENTLY PUBLISHED 1978 BALANCE OF PAYMENTS PROJECODGN AND CONSULTATION WITH CENTRAL BANKS OFFICIALS, SUGGESTS THAT GOP IS CLOSING PERUS 1978 EXTERNAL FINANCIAL GAP. ESSENTIAL ELEMENT IN GOP'S FINANCIAL PLAN FOR 1979 AND BEYOND IS SUCCESSFUL CONCLUSION TO IMF STANDBY NEGOTIATIONS E E TO START THIS WEEK. WITHOUT A STANDBY, AS CENTRAL BANK PRESIDENT IS AWARE, CONVERSION OF \$186 MILLION ROLLOVER GRANTED BY COMMERICAL BANKS TO MEDIUM TERM LOAN AND INITIATION OF GOVERNMENT-TO-GOVERNMENT (PARIS CLUB STYLE) RESCHEDULING LATER THIS YEAR WOULD BE VIRTUALLY IMPOSSIBLE. IMF STANDBY WOULD ALSO HELP IMMEDIATELY TO PREVENT AN OUTFLOW OF SHORT TERM CAPITAL. END SUMMARY.

2. THE GOP'S JUNE B/P PROJECTION: PERU'S 1978 BLANCA OF PAYMENTS PROJECTION HAS BEEN SUBJECT OF HIGH PRIORITY RECALCULATION AND REVIEW UNDER SUPERVISION OF PERU'S NEW CONFIDENTIAL

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ECONOMIC TEAM. WE WERE INFORMED LAST WEEK BY CNETRAL BANK OFFICIALS THAT THE PROJECTION RELEASED TO THE PUBLIC ON JUNE 15, FORWARDED BY US TO DEPARTMENT IN LIMA'S A-60 (ENCLOSURE, PAGE 16) IS ESSENTIALLY THE SAME PROJECTION TO BE USED BY GOP IN UPCOMING NEGOTIATIONS WITH THE IMF. CENTRAL BANK OFFICIALS STATED ON JUNE 28) THAT THEIR PROJECTION OF EXPORT EARNINGS AND EXTERNAL DEBT AMORTIZATION MAY BE

CHANGED SLIGHTLY PRIOR TO ARRIVAL OF IMF TEAM. IN OUR VIEW THE PRINCIPAL DEFICIENCY OF THE PUBLICLY RELEASED B/P PROJECTION WAS LACK OF ADEQUATE DETAIL, PARTICULARLY FOR CAPITAL ACCOUNT ITEMS. OUR CONSULTATIONS WITH CENTRAL BANK OFFICIALS PROVIDED ADDITIONAL USEFUL DETAIL. THE MOST COMPLETE PREVIOUS GOP PROJECTION OF PERU'S 1978 B/P WAS THE GOP'S JANUARY MEMORANDUM TO FOREIGN BANKERS. WE COMPARE AND CONTRAST PROJECTIONS GOP JANUARY AND JUNE PROJECTION IN THE FOLLOWING PARAGRAPHS.

3. COLUMN A BELOW IS GOP'S JANUARY MEMO DATA. COLUMN B IS GOP'S JUNE DATA. ALL DATA ARE IN MILLIONS OF U.S. DOLLARS.

I. CURRENT ACCOUNT	A	B
EXPORT (FOB)	(1975.5)	(1829.1)
FISH MEAL	168.0	147.0
FISH OIL	0.4	0.5
OTHER FISH PRODUCTS	44.4	58.2
COTTON	50.4	43.1
SUGAR	74.3	56.4
COFFEE	120.1	141.2
WOOL	24.4	20.4
COPPER	438.1	393.0
IRON ORE	106.2	92.9
SILVER	188.9	186.4
LEAD	90.1	85.6
ZINC	144.2	126.2

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PETROLEUM	196.7	170.9
OTHER PRODUCTS	329.3	307.3
IMPORTS (FOB)	(1,920.0)	(1,792.8)
CONSUMER GOODS	181.3	155.6
RAW MATERIALS	958.7	826.2
CAPITAL GOODS AND OTHER	780.0	811.0
TRADE BALANCE	PLUS 55.6	PLUS 36.3
NET NON-FINANCIAL SERVICES MINUS	52.1	MINUS 23.9
FREIGHT	MINUS 27.1	MINUS 18.9
GOVERNMENT	MINUS 22.9	MINUS 22.9
TRANSPORTATION	MINUS 76.0	MINUS 76.0
TRAVEL	PLUS 91.1	PLUS 108.9
OTHER SERVICES	MINUS 17.2	MINUS 15.0
NET FINANCIAL SERVICES	MINUS 485.0	MINUS 50.8
PUBLIC SECTOR	MINUS 336.0	MINUS 354.8
PRIVATE SECTOR	MINUS 149.0	MINUS 149.0
NET TRANSFER (DONATIONS)	PLUS 56.0	PLUS 56.0
BALANCE ON CURRENT ACCOUNT	MINUS 425.3	MINUS 435.4

II. CAPITAL ACCOUNT

NET PRIVATE DIRECT INVESTMENT	PLUS 50.2	PLUS 50.2
INFLOW	150.0	150.0

OUTFLOW 99.8 99.8
 NET CREDIT TO PRIVATE SECTOR PLUS 10.0 PLUS 10.0
 UTILIZATION 84.4 84.4
 AMORTIZATION 74.4 74.4
 NET CREDIT TO GOVERNMENT SECTOR PLUS 161.0 PLUS 210.0
 UTILIZATION PLUS 800.0 PLUS 843.8
 FOR INVESTMENT PROJECTS 406.0 394.3
 FOR FOODSTUFFS 90.0 110.0
 FOR OTHER 304.0 339.4
 AMORTIZATION MINUS 639.0 MINUS 633.8
 NET CREDIT TO DEVELOPMENT BANKS MINUS 15.0 MINUS 14.1
 UTILIZATION N.A. 0.5
 AMORTIZATION N.A. 14.6
 --NET LONG TERM CAPITAL PLUS 206.2 PLUS 256.1
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--NET BASIC BALANCE MINUS 219.1 MINUS 179.3
 NET SHORT TERM CAPITAL PLUS 69.1 MINUS 67.2
 BALANCE ON CAPITAL ACCOUNT PLUS 275.3 PLUS 188.9

III. OVERALL BALANCE MINUS 150.0 MINUS 246.4

IV. ERORS AND OMISSIONS (-) PLUS 6.4

V. COMPENSATORY MOVEMENT
 (PLUS INDICATES DECREASE IN NET
 INTERNATIONAL RESERVE POSITION) PLUS 150.0 PLUS 240.0

(-) INCLUDED IN SHORT FORM CAPITAL

4. OUR COMMENTS ON THE JUNE PROJECTION

IN COMPARING THE TWO GOP PROJECTIONS OF PERU'S 1978 B/P
 SEVERAL AGGREGATES SHOW LITTLE CHANGE THE JUNE PROJECTION HAS
 A TRADE BALANCE OF \$ PLUS 36.3 MILLION (A REDUCTION OF \$ 19.3 MILLION

FROM THE JANUARY MEMO); THE CURRENT ACCOUNT BALANCE IS NOW \$ MINUS
 435.4 MILLION (AN INCREASED DEFICIT OF \$10.1 MILLION); AND THE NET
 INFLOW OF LONG-TERM CAPITAL IS NOW \$ 206.2 MILLION (AN INCREASED
 INFLOW OF \$ 49.2 MILLION). THE CHANGE IN SHORT-TERM CAPITAL AMOUNTS TO

\$136.3 MILLION IN A NEGATIVE DIRECTION. THE CENTRAL BANK NOW
 PROJECTS A DECREASE IN PERU'S NET INTERNATIONAL RESERVE
 POSITION OF \$ 240 MILLION FOR 1978 INSTEAD OF \$ 150 MILLION
 PER JANUARY MEMO. IN REGARD TO DETAIL, OUR OBSERVATIONS ARE
 AS FOLLOWS:

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C O N F I D E N T I A L SECTION 2 OF 2 LIMA 5878

A. PRINCIPAL EXPORT COMMODITIES. FISHMEAL VOLUME IS NOW 350,000 MT AS COMPARED WITH 400,000 MT IN JANUARY MEMO. COFFEE PRICE PROJECTION IS NOW \$ 1.44 PER POUND VERSUS 1.22 (JANUARY MEMO), VOLUME UNCHANGED. COPPER VOLUME IS NOW 338,700 MT VERSUS 351,500 MT AND PRICE (FOB) 52.60 CENTS VERSUS 56.53 CENTS (JANUARY MEMO). FOR ZINC, VOLUME IS UP 2 PERCENT AND (FOB) PRICE IS DOWN FROM 15.05 CENTS PER POUND TO 12.93 CENTS PER POUND. FOR PETROLEUM (AND DERIVATIVES) VOLUME IS DOWN 11 PERCENT AND PRICE IS DOWN BY 3 PERCENT.

B. IMPORTS ARE NOW PROJECTED AT A LOWER LEVEL --A DECLINE OF 6.6 PERCENT. WE ARE SURPRISED THAT CAPITAL GOODS AND OTHER CATEGORY INCREASES, BUT THIS MAY RELATE TO POINT F BELOW.

C. NON FINANCIAL SERVICES. THE PRINCIPAL SOURCE OF IMPROVEMENT IS TOURISM.

D. FINANCIAL SERVICES. CENTRAL BANK OFFICIALS INDICATE THAT INCREASE IN PUBLIC SECTOR INTEREST PAYMENTS IS DUE PRINCIPALLY TO DATA PREPARED TO JUNE 1, 1978 BY THE DIRECTORATE GENERAL OF PUBLIC CREDIT MEF WHICH INDICATED INCREASE IN COST OF DEBT SERVICE DUE TO DEVALUATION OF U.S. DOLLAR.

E. CAPITAL INFLOW TO PRIVATE SECTOR. GOP JUNE PROJECTION WAS NOT UPDATED.

F. CAPITAL INFLOW TO PUBLIC SECTOR. THE GOVERNMENT SECTOR INCLUDES ALL STATE ENTERPRISES AND NEARLY ALL PUBLIC SECTOR
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ENTITIES OTHER THAN STATE DEVELOPMENT BANKS. CENTRAL BANK OFFICIALS INDICATED THAT NEARLY ALL THE PROJECTED UTILIZATION IS FROM CREDITS ALREADY CONTRACTED, I.E. LESS THAN \$ 50 MILLION

REMAINED TO BE CONTRACTED. WE SUSPECT THAT THE "OTHER" CATEGORY IS MILITARY ARMS IMPORTS; CENTRAL BANK OFFICIALS STATED THIS CATEGORY DOES NOT INCLUDE FOREIGN EXCHANGE LOANS NOR THE \$ 185 MILLION ROLLOVER.

G. CAPITAL OUTFLOW FROM PUBLIC SECTOR. AMORTIZATION BY THE PUBLIC SECTOR OF \$ 633.8 MILLION IS SUBSTANTIALLY HIGHER THAN THE \$ 593.7 AMORTIZATION STATED IN REFTEL B. CENTRAL BNK OFFICIALS STATED INCREASE WAS DUE PRINCIPALLY TO DEVALUATION AND TO READJUSTMENTS DUE TO MEF CALCULATION OF UTILIZATION OF CREDITS UP TO DECEMBER 31, 1977. THEY ALSO STATED JUNE PROJECTION INCLUDES IMPACT OF REDUCED AMORTIZATION DUE TO USSR IN 1978.

H. SHORT TERM CAPITAL MOVEMENT. THE \$ 672. MILLION OUTFLOW ON SHORT-TERM CAPITAL WAS NOT INCLUDED IN GOP'S PUBLICLY RELEASED DATA. CENTRAL BANK OFFICIALS AGREED WITH OUR VIEW THAT REDUCTION IN ISSUANCE OF LETTERS OF CREDIT BY PERUVIAN COMMERCIAL BANKS (AN OUTFLOW) AND ARREARAGES (AN INFLOW) EXIST, BUT MAGNITUDES AND PREDOMINANT TENDENCIES ARE DIFFICULT TO DETECT. THE CB CALCULATION OF SHORT-TERM CAPITAL MOVEMENT RELATES FUNDAMENTALLY TO ACCRUALS VERSUS RECEIPT OF FOREIGN EXCHANGE. THE \$67.2 MILLION NET OUTFLOW IS COMPOSED OF \$ MINUS 159.7 MILLION FROM EXPORT-RELATED CREDITS, \$ PLUS 63.5 IMPORT - RELATED CREDIT, (INCLUDING ALLOW-ANCE OF REDUCTION OF PERIOD OF OBLIGATORY FINANCING OF IMPORTS FROM 180 DAYS TO 150 DAYS ON JULY 1) AND \$ PLUS 29.0 FROM FINANCIAL CREDITS.

THE IMPACT (AN INFLOW) OF A RECENTLY NEGOTIATED \$30 MILLION PER EXPORT FINANCING BY MINPECO IS INCLUDED IN THIS CB CALCULATION.

5. THE FINANCIAL GAP. PERU'S 1978 FINANCIAL GAP CONSISTS OF THE COMPENSATORY DEFICIT OF \$240 MILLION (SEE PARA 3 ABOVE) PLUS APPROXIMATELY CONFIDENTIAL

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\$65 MILLION IN SOVIET DEBT NOT INCLUDED IN THE \$240 MILLION, AND \$47 MILLION IN BELOW-THE-LINE REPAYMENT OF PREVIOUS B/P SUPPORT LOANS (DUE IN NOVEMBER) A TOTAL OF \$352 MILLION. AS THE SOVIET DEBT HAS BEEN RESCHEDULED (THE GOP JUNE DATA MAKE THIS ADJUSTMENT) PERU IS LEFT WITH A FINANCIAL GPK OF \$287 MILLION, AND THE GOP HAS RECENTLY MOVED TO FILL THIS GAP BY MEANS OF A \$185 MILLION ROLLOVER WITH FOREIGN COMMERCIAL BANKS (REFTEL A) AND \$86 MILLION IN RENEWABLE DEPOSITS FROM SIX CENTRAL BANKS (REFTEL C). THIS \$271 MILLION IN NEW CREDITS ESSENTIALLY FILLS THE BSIC GAP BUT FAILS TO PROVIDE ANY INCREASE IN RESERVES.

6. SHORT-TERM ROLLOVER. ABOVE ANALYSIS OF THE FINANCIAL GAP ASSUMES THAT ALL BANKING SYSTEM OBLIGATION OF LESS THAN ONE YEAR WILL BE ROLLED OVER. WE CONSIDER THIS A REASONABLE ASSUMPTION AS GOP CONTINUES

SUCCESSFULLY TO WORK AT OUTSTANDING ARREARAGES, ESTIMATED AT

ABOUT\$90 MILLION AS OF APRIL 30, BUT NOW REDUCED SOMEWHAT BY A RECENT 30 MILLION PRE-EXPORT FINANCING OF MINERALS SALES THROUGH MINPECO, CENTRAL BANK PLANS TO FUNNEL AVAILABLE DOLLARS TO COMMERICAL BANKS IN SUFFICIENT QUANTITIES OVER COMING WEEKS TO CLEAR ALL ARREARAGES, WHICH IT IS FELT WILL HAVE A FAVORABLE EFFECT ON THE MAINTENANCE AND EVEN POSSIBLE INCREASE IN SHORT-TERM LINES OF CREDIT TO PERUVIAN COMMERICAL BANKS. IF PERU SUCCEEDS IN NEGOTIATING NEW IMF STANDBY (TEAM ARRIVES HERE THIS WEEK) THIS WILL ALSO HAVE FAVORABLE EFFECT ON CLIMATE FOR SHORT-TERM LINES, AS WILL EARLY AND SUCCESSFUL COMPLETION OF \$185 MILLION ROLLOVER NEGOTIATION.

7. COMMENT: AS SUGGESTED REF A PERU HAS BOUGHT SOME SIX MONTHS OF TIME BY BRIDGINGTHE FINANCIAL GAP FOR 1978, AND NOW MUST CONCENTRATE ITS EFFORTS ON 1) NEGOTIATING THE IMF STANDBY, 2) CONVERTING THE 1978 ROLLOVER OF \$185 MILLION WITH COMMERICAL BANKS TO A MEDIUM-TERM ARRANGEMENT FOR PUBLIC SECTOR DEBT FALLING DUE IN THE 1979-1982 TIME FRAME, AND 3) NEGOTIATING A PARIS CLUB-TYPE ARRANGMENT WITH PERUS OFFICIAL CREDITORS. OF THESE, THE IMF
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STANDBY NEGOTIATIONS, WHICH WE UNDERSTAND WILL BEGIN JULY 5 IN LIMA, HAVE THE HIGHEST PRIORITY--AN IMF STANDBY IS SEEN HERE AS VIRTUALLY A CONDITION PRECEDENT TO A FURTHER RESCHEDULING OF PERUS DEBTS TO FOREIGN COMMERICAL BANKS, AND TO A PARIS CLUB UNDERTAKING AS WELL.

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